# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

REVISED
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## A bill to extend the African Growth and Opportunity Act, the Generalized System of Preferences, the preferential duty treatment program for Haiti, and for other purposes

*As ordered reported by the Senate Committee on Finance on April 22, 2015*

### SUMMARY


The legislation would extend reduced tariff rates imposed on products imported under the African Growth and Opportunity Act (AGOA), the Generalized System of Preferences (GSP), and the Haitian Hemispheric Opportunity through Partnership Encouragement Act. The bill also would shift some corporate income tax payments between fiscal years, expand the account information that financial institutions and others are required to report to the Internal Revenue Service (IRS), and increase the rate of certain fees collected by Customs and Border Protection (CBP) as well as extend the authority to collect those fees.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the bill would reduce direct spending by $5.9 billion and reduce revenues by about $5.8 billion over the 2015-2025 period—resulting in a decrease in deficits over the 11-year period of $81 million. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. CBO estimates that the Congressional reports called for under the bill would cost $1 million over the 2015-2020 period, assuming availability of appropriated funds.

CBO has determined that the nontax provisions of the bill contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. JCT has determined that the tax provisions of the bill contain no intergovernmental mandates.

CBO has determined that the nontax provisions of the legislation contain private-sector mandates on entities required to pay merchandise processing fees. CBO estimates the aggregate cost of the mandates would exceed the annual threshold established in UMRA for private-sector mandates ($154 million in 2015, adjusted annually for inflation). JCT has determined that the tax provisions of the bill contain no private-sector mandates.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of the bill are shown in the following table. The costs of this legislation fall within budget functions 750 (administration of justice) and 370 (advancement of commerce).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2015-2020 | 2015-2025 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0 | 0 | 0 | 0 | 0 | -162 | -873 | -916 | -962 | -2,948 | 0 | -5,861 |
| Estimated Outlays | 0 | 0 | 0 | 0 | 0 | 0 | -162 | -873 | -916 | -962 | -2,948 | 0 | -5,861 |
| **CHANGES IN REVENUES** | | | | | | | | | | | | | |
| Extension of African Growth and Opportunity Act | * | -121 | -130 | -238 | -284 | -298 | -312 | -329 | -345 | -365 | -387 | -1,071 | -2,809 |
| Extension of General System of Preferences | -1,051 | -627 | -665 | -173 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2,516 | -2,516 |
| Extension of Preferential Duty Treatment for Haiti | 0 | 0 | 0 | 0 | -12 | -17 | -75 | -97 | -101 | -106 | -112 | -29 | -520 |
| Duty-free Treatment for Certain Footwear | * | -2 | -2 | -2 | -2 | -2 | -3 | -3 | -3 | -3 | -3 | -10 | -25 |
| Shift in Payment of Corporate Estimated Tax | 0 | 0 | 0 | 0 | 0 | 3,781 | -3,781 | 0 | 0 | 0 | 0 | 3,781 | 0 |
| Improved Information Reporting on Unreported and Underreported Financial Accounts | 0 | 7 | 7 | 8 | 8 | 9 | 9 | 10 | 10 | 11 | 11 | 39 | 90 |
| Total Changes in Revenues | -1,052 | -743 | -790 | -405 | -290 | 3,473 | -4,162 | -419 | -439 | -463 | -491 | 194 | -5,780 |
| **NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES** | | | | | | | | | | | | | |
| Impact on Deficit | 1,052 | 743 | 790 | 405 | 290 | -3,473 | 4,000 | -454 | -477 | -499 | -2,457 | -194 | -81 |

Sources: Congressional Budget Office and the Staff of the Joint Committee on Taxation

Notes: This estimate assumes enactment of the bill by July 1, 2015; * = between -$500,000 and zero.

For direct spending, negative numbers indicate a decrease in outlays; for revenues, negative numbers indicate a reduction in revenues.

Components may not sum to totals because of rounding.

CBO estimates that implementing the bill would cost about $1 million over the 2015-2020 period, assuming availability of appropriated funds, to prepare Congressional reports.

## BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted by July 1, 2015.

### Direct Spending

Under current law, the authority to charge merchandise processing fees collected by Customs and Border Protection will expire after September 30, 2024. The bill would extend the authority to collect those fees through July 7, 2025. The bill also would raise the rate of the merchandise processing fee from 0.21 percent to 0.3464 percent of the value of goods entering the U.S. for the period beginning July 1, 2021, and ending June 30, 2025. CBO estimates those actions would increase offsetting receipts (certain collections that are treated as reductions in direct spending) by about $5.9 billion over the 2021-2025 period. To project collections of merchandise processing fees, CBO assumes that the fees collected in future years will grow at the same rate seen in recent years—about 5 percent. In 2014 collections from the merchandise processing fee totaled $2.3 billion. By 2024 CBO estimates those collections will total about $2.7 billion under current law. CBO expects that the proposed increase in the fee rate would have a very minor effect on the value of goods entering the U.S.

### Revenues

CBO's estimates of the revenue effects of proposals to lower tariff rates charged on imports from certain countries or on certain goods are based on historical data about the value and volume of those goods entering the United States. Using that historical data, CBO develops a baseline of future collections that accounts for expected growth in trade over the next ten years. To estimate tariff collections under the proposed legislation, CBO considers both general growth in trade as well as changes in demand that are likely to result from lower rates. The changes in revenues for each of the programs discussed below reflect the difference between the baseline estimate of collections for each program using effective tariff rates under current law and projected collections under each proposal using the proposed duty rate, net of payroll and income tax offsets. CBO assumes that the lower tariffs under the legislation would result in an increase in overall imports, as well as a diversion of imports from countries or import categories that would not be eligible for lower tariffs to those that would.

**Extension of African Growth and Opportunity Act.** Under AGOA the U.S. provides nonreciprocal tariff reductions to roughly 40 eligible sub-Saharan countries for certain goods that the U.S. imports. The bill would extend the authority for reduced tariffs under AGOA, which are set to expire at the end of September 30, 2015, through September 30, 2025. The bill also would extend the special rule that would apply to certain lesser-developed sub-Saharan countries under AGOA. The special rule also expires on

September 30, 2015. Under this rule a lesser-developed country may export duty-free to the United States any apparel good that is assembled within the country, regardless of the origin of the fabric or yarn. In addition, the bill would revise the rules of origin for AGOA beneficiary countries under GSP to expand the value of products that would qualify for duty free treatment. CBO estimates that extending and amending AGOA would reduce revenues by $2.8 billion over the 2015-2025 period, net of payroll and income tax offsets. That estimate includes the revenue loss after December 31, 2017, from imports that are eligible for duty free treatment under GSP (which the bill would extend through December 31, 2017).

**Extension of General System of Preferences.** Under the GSP the U.S. affords nonreciprocal tariff reductions to approximately 130 developing countries. Generally, duty-free treatment of imported goods from GSP-designated developing countries is extended to products that are predominately produced only in those countries. The bill would renew GSP, which expired on July 31, 2013, and continue its authority through December 31, 2017. Under the bill, importers or exporters that would have otherwise qualified for reduced tariffs under GSP could obtain refunds for tariffs paid after July 30, 2013, that would not have been payable had GSP been in effect. CBO estimates that renewing GSP would reduce revenues by $2.5 billion over the 2015-2025 period, net of payroll and income tax offsets. This estimate includes the cost, through December 31, 2017, of imports that are eligible for duty free treatment under the African Growth Opportunity Act (which would be extended through 2025 under this bill).

**Extension of Preferential Duty Treatment for Haiti.** Under the Haitian Hemispheric Opportunity through Partnership Encouragement Act, certain textile and apparel goods imported to the U.S. from Haiti are eligible for duty-free treatment if restrictions regarding the source of the yarns and fabrics used in the imported goods are met. Portions of this program will begin to expire in 2016; the bill would extend this duty-free status through 2025. CBO estimates that enacting this provision would reduce revenues by $520 million over the 2015-2025 period, net of payroll and income tax offsets.

**Duty Treatment for Certain Footwear.** The bill would establish new categories in the Harmonized Tariff Schedule (HTS) for specialized athletic footwear that would enter the United States at a reduced duty rate. Footwear imports that meet the criteria for these new categories currently are charged a duty rate of 37.5 percent, the rate would fall to 20 percent under the bill. In 2014, imports in the HTS categories that include, among other things, articles that would be eligible for duty-free treatment under the bill totaled about $33 million. Based on information from the International Trade Commission and industry sources familiar with the provisions of the bill, CBO expects that nearly 75 percent of that amount would be eligible for the lower duty treatment. That percentage includes products expected to be imported under current law that would qualify for the lower duty rate under the bill and other imports that would shift from other dutiable categories. The estimate of revenue losses is partially offset by customs duties from new trade that would be generated as a result of the lower duty status. CBO estimates that enacting this provision would reduce revenues by $25 million over the 2015-2025 period, net of payroll and income tax offsets.

**Shift in Payment of Corporate Estimated Tax.** The legislation would shift payments of corporate estimated taxes between fiscal years 2020 and 2021. For corporations with at least $1 billion in assets, the bill would increase the portion of corporate estimated payments due from July through September in 2020. The staff of the JCT estimates that those changes would increase revenues by $3.8 billion in 2020 and reduce revenues by the same amount in 2021.

**Improved Information Reporting on Unreported and Underreported Financial Accounts.** The legislation would expand the account information that financial institutions and others are required to report to the IRS and the holder of specified accounts. In particular, this information would have to be provided for interest bearing accounts when the annual interest earnings are less than $10, the threshold for reporting under current law, and also would have to be provided for certain non-interest bearing accounts that are currently not subject to reporting requirements. The staff of the JCT estimates that enacting this provision would increase revenues by $90 million over the 2015-2025 period.

**Travel Goods.** Under section 204, the President would have the discretion to eliminate import duties on travel goods brought to the U.S. from countries eligible for preferential tariff treatment under GSP. Another provision of the legislation would extend GSP authority through December 31, 2017. Travel goods are a category of consumer goods that includes handbags and luggage. In 2014, about $60 million in duties were collected for travel goods imported to the U.S. from countries eligible for GSP.

Based on information from the U.S. Trade Representative regarding past decisions made by the Administration to reduce duty rates, CBO expects that the likelihood of the President selecting any or all of the items in the travel goods category for this special treatment is quite small. Thus, CBO estimates this section would reduce revenues by less than $500,000 over the 2015-2025 period.

**Spending Subject to Appropriation**

The bill would require the United States Trade Representative to prepare a series of reports on trade activities with sub-Saharan African countries and their interest in entering into free trade agreements with the United States. Based on the cost of similar reports, CBO estimates that the costs to prepare that series would be significantly less than $500,000 annually, and would total about $1 million over the 2015-2020 period.

## PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

**CBO Estimate of Pay-As-You-Go Effects for an original bill, as ordered reported by the Senate Committee on Finance on April 22, 2015**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2015-2020 | 2015-2025 |
| | **NET INCREASE OR DECREASE (-) IN THE DEFICIT** | | | | | | | | | | | | |
| Statutory Pay-As-You-Go Impact | 1,052 | 743 | 790 | 405 | 290 | -3,473 | 4,000 | -454 | -477 | -499 | -2,457 | -194 | -81 |
| **Memorandum:** | | | | | | | | | | | | | |
| Changes in Outlays | 0 | 0 | 0 | 0 | 0 | 0 | -162 | -873 | -916 | -962 | -2,948 | 0 | -5,861 |
| Changes in Revenues | -1,052 | -743 | -790 | -405 | -290 | 3,473 | -4,162 | -419 | -439 | -463 | -491 | 194 | -5,780 |

## ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has determined that the nontax provisions of the bill contain no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments. JCT has determined that the tax provisions of the bill contain no intergovernmental mandates.

## ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has determined that the nontax provisions of the legislation would impose private-sector mandates, as defined in UMRA, on entities required to pay merchandise processing fees. The bill would extend those fees through July 7, 2025; the fee rates would increase beginning July 1, 2021, and ending June 30, 2025. Some of the entities that are required to pay merchandise processing fees may also accrue savings related to the preferential tariff treatment accorded to certain products that would be extended under the bill. However, CBO estimates that the aggregate cost of the mandates would exceed the annual threshold established in UMRA for private-sector mandates ($154 million in 2015, adjusted annually for inflation). JCT has determined that the tax provisions of the bill contain no private-sector mandates.

## PREVIOUS CBO ESTIMATE

On May 6, CBO transmitted a cost estimate for a bill to extend the African Growth and Opportunity Act, the Generalized System of Preferences, the preferential duty treatment program for Haiti, and for other purposes after the Senate Finance Committee ordered the legislation reported on April 22, 2015. That estimate did not include the effects of technical and conforming amendments subsequently provided to CBO by the Senate Finance Committee on May 8, 2015, that reduced the cost of the legislation by $156 million over the 2015-2025 period. This cost estimate of the legislation as ordered reported revises the CBO cost estimate provided on May 6, 2015 to incorporate those effects.

On April 29, 2015, CBO transmitted a cost estimate for H.R. 1891, a bill to extend the African Growth and Opportunity Act, the Generalized System of Preferences, the preferential duty treatment program for Haiti, and for other purposes, as ordered reported by the House Ways and Means Committee on April 23, 2015. The Senate committee bill contains a provision that would provide duty-free treatment for certain shoes, which would reduce revenues by $25 million over the 2015-2025 period that was not included in the House committee bill. The Senate committee's bill also includes a provision regarding information reporting on unreported and underreported financial accounts that was not included in the House committee bill. Otherwise, CBO's estimates of the budgetary effects of the Senate and House committee bills are the same.

## ESTIMATE PREPARED BY:

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